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PROPERTY APPRAISAL PROVIDES CONTROL, INSURANCE BASIS, AND VALUE ESTIMATE.

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A COMPLETE PROPERTY APPRAISAL SERVES AS A BASIS FOR CONTROL, INSURANCE AND VALUE ESTIMATE. A PROFESSIONAL APPRAISAL FIRM SHOULD PERFORM THIS FUNCTION BECAUSE (1) IT IS FAMILIAR WITH PROPER METHODS, (2) IT CAN PREPARE THE REPORT WITH MINIMUM CONFUSION AND INTERRRUPTION OF THE COLLEGE OPERATION, (3) USE OF ITS PRICING LIBRARY REDUCES TIME NEEDED AND INCREASES EFFICIENCY, (4) IT WILL PROVIDE CONSISTENCY AND UNIFORMITY, AND (5) THE FINISHED REPORT IS MOST USEFUL TO THE CLIENT. BUILDING APPRAISAL PRESENTS PROBLEMS WHICH VARY WITH THE AGE OF THE CONSTRUCTION. FIRE INSURANCE APPRAISAL PRESENTS PROBLEMS WHICH VARY WITH THE AGE OF THE CONSTRUCTION. FIRE INSURANCE APPRAISAL VALUES INCLUDE (1) NEW REPLACEMENT COST, (2) NEW REPLACEMENT INSURABLE COST, (3) SOUND OR DEPRECIATED VALUE, AND SOUND INSURABLE VALUE. A PROPERTY CONTROL SYSTEM IS THE BEST METHOD OF CONTROLLING MOVEMENT, ACCOUNTING FOR ASSETS, AND DETERMINING NEEDS FOR REPLACEMENT AND ADDITION. USE OF ELECTRONIC DATA PROCESSING EQUIPMENT FACILITATES THE PROCESS. THIS ARTICLE IS PUBLISHED IN "COLLEGE AND UNIVERSITY BUSINESS," VOLUME 39, NUMBER 1, JULY 1965. (WO)

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Property Appraisal Provides Control, Insurance Basis, and Value Estimate

Bakersfield College's new property control system and the appraisal report on which it was based are doing what they were designed to do — three jobs at once

Jack K. Thomson
School Appraisal Analyst, Los Angeles

PROPERTY control records enable the administrator to account for and control all assets under his care, assist in planning and providing for proper plant equipment by furnishing data such as costs, useful life, location, condition, adequacy, quantity and so forth.

They also provide the administrator with a constant, quick and accurate check of all critical items such as business machines, audiovisual equipment, microscopes, and thus help eliminate the possibilities of misplacement and theft. A property control system also has the advantage of being easily expanded and maintained with minimum cost and effort by the administrative staff.

Bakersfield College, Bakersfield, Calif., a medium-sized college with an average daily attendance of 4,102, is an outstanding case study example of a school district that would be seriously handicapped without its new property control system. After consultation with an appraisal company, it was determined the appraisal should fill three requirements: a fire insurance appraisal, a property control system, and a fair market value appraisal. This was because Bakersfield College was in the throes of separating from Kern County Joint Union High School District.

Deputy Supt. Theron S. Taber Jr. reports Bakersfield College's new property control system and the appraisal report upon which it was based are doing precisely what they were designed to do. Since the college has electronic data-processing equipment, the property control system was to be set up on punched cards.

Let us examine each facet of the requirements of the Bakersfield College and analyze the manner in which it was accomplished and what benefits were derived.

Fire Insurance Appraisal. The most important need the Bakersfield College had in having an adequate appraisal was to protect itself in the event of a fire. Why? The following excerpts from the district's insurance policy, typical of other policies of this type, appear under the subject "Requirements in case loss occurs":

"The insured shall give written notice to this company of any loss without unnecessary delay. . . furnish a complete inventory of the destroyed, damaged and undamaged property, showing in detail quantities, costs, actual cash value, and amount of loss claimed . . . the insured shall render to this company a proof of loss. . . and, if required and obtainable, verified plans and specifications of any building, fixtures or machinery destroyed or damaged."

The district's policy also reads:

"No suit or action on this policy for the recovery of any claims shall be sustainable in any court of law or equity unless all the requirements of this policy have been complied with."

The burden of proof rests with the school district, not the insurance company. Therefore, Bakersfield College's appraisal provided the administrative staff with the essential foundation for its fire insurance program. A building appraisal can be accomplished in two basic ways. *Recent* construction can be appraised from a historical cost analysis, which is a sound approach to value. However, this should only be done by a qualified appraiser thoroughly familiar with construction detail and having all pertinent facts at his disposal. *Older* construction cannot be properly estimated by a historical cost approach. Thus, a quantitative listing of all building components by logical classifications, such as excavation, foundation below ground, exterior walls, roof construction, lighting, plumbing, heating and so forth, should be listed and priced on the basis of new replacement cost today.

The equipment appraisal was based upon a room-by-room physical inventory that was priced to reflect current costs.

Values for a fire insurance appraisal are determined depending upon the type of insurance coverage.

These include: (1) new replacement cost; (2) new replacement insurable cost (new replacement cost less noninsurable items); (3) sound or depreciated value (new replacement cost less depreciation); (4) sound insurable value (new replacement cost less depreciation and noninsurable items).

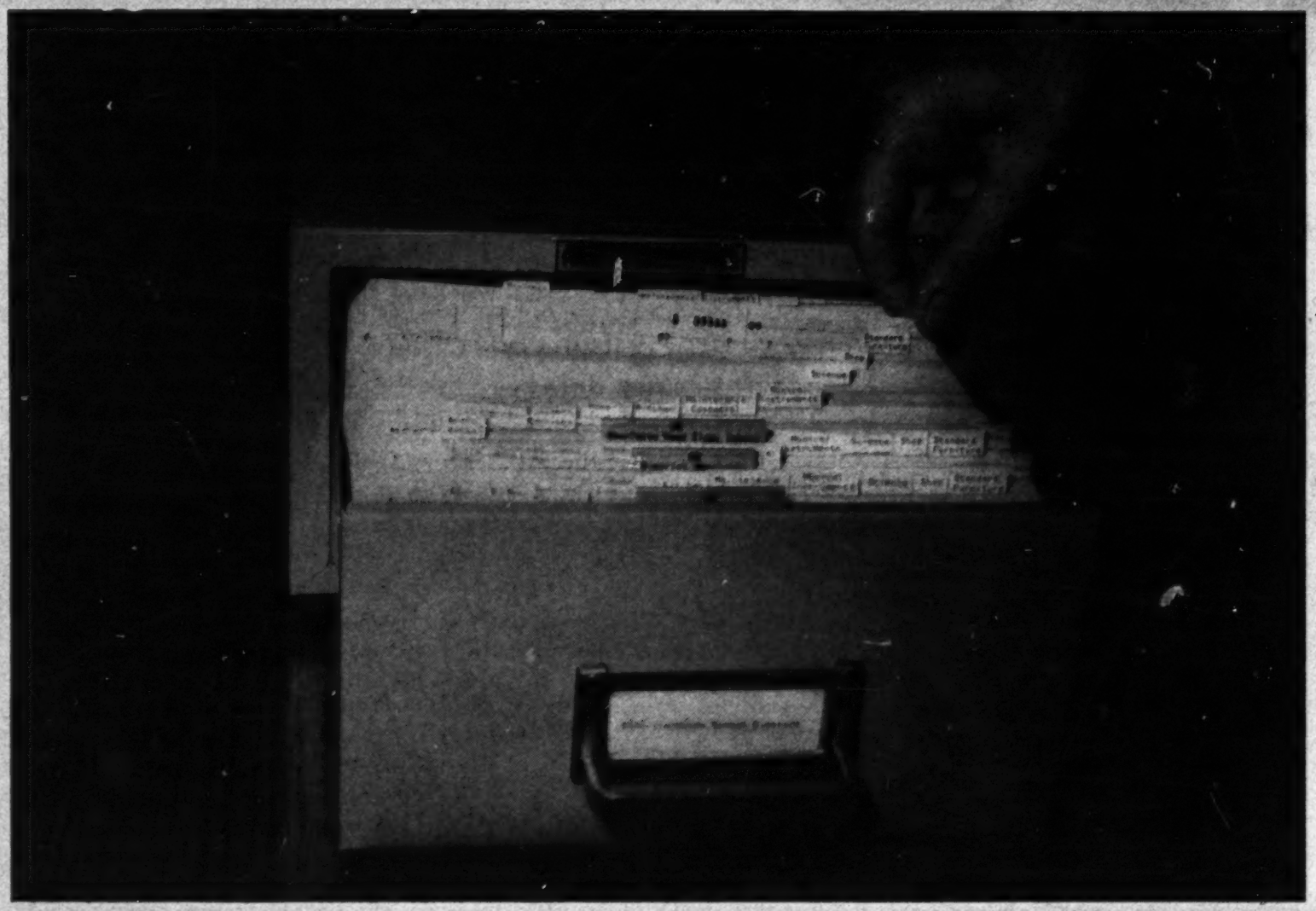
The fire insurance appraisal report was supplied in a typewritten, bound volume, arranged and indexed for easy use, which included a summary and recapitulation showing a breakdown of construction and equipment values for each building, description of each structure, maps showing building location, and a complete print-out of all equipment. This provided the basis for a property control system.

Property Control System. A property control system is the best method of controlling movement of school equipment and accounting for all assets in the administrator's care. It also enables the administrator easily and quickly to determine building, department or room equipment needs and assist in budgeting for any future expansion.

From the basic fire insurance appraisal, equipment is separated into two categories: unit control and group control.

Unit control covers units of property which are subject to individual identification, such as typewriters, projectors, microscopes and so forth.

Cards are then key-punched for each item to supply the following visible and punched information: (1) description,



Photograph shows how an entire school district's property cards are set up in an indexed manner for manual use.

(2) date, (3) building, (4) code number, (5) replacement cost, (6) model number, (7) serial number.

Group control cards contain the record of a quantity of like units of property such as desks, chairs, tables and so forth. The visible and punched layout of these cards contain the following information: (1) description, (2) date, (3) building, (4) code number, (5) quantity of unit, (6) unit replacement cost, (7) group replacement cost.

The code number is utilized in order to break down the equipment into categories such as classroom furniture, business machines, audiovisual equipment. This enabled the appraisal company to furnish the school district with an accurate, up-to-date valuation annually by applying increased or decreased percentage factors to the different classifications to comply with the current cost trend. This also will furnish the school district with continuing up-to-date records efficiently and inexpensively.

Fair Market Value. In unification or separation of school districts, a fair market value must usually be determined on all school assets. A definition of fair market value would conform to the generally accepted concept that assumes a condition of buying and selling school districts, both willing and informed of the circumstances but neither acting under pressure. In the case of the Bakersfield College, it was a simple matter from the information already compiled to key-punch the fair market value into the property control cards, in this way producing a threefold appraisal.

Electronic data processing is one of the newest and most important advances in streamlining school property control systems.

With the introduction of this equipment into colleges and universities, it is additionally advantageous to utilize this costly equipment by putting the property control system on punched cards. If the institution does not have this equipment available it may be possible to choose an appraisal company that can perform this function.

The most useful property control system is best prepared on the basis of a competent appraisal. The appraisal should be conducted by competent personnel who use careful methods of recording and classifying items and pricing the inventory. Otherwise, the resulting system has little value to anyone.

Here are a few reasons why a professional appraisal firm is better equipped to perform this work:

1. It is familiar through many years of experience with the proper methods of organizing and setting up the individual items.

2. It can prepare the report with a minimum amount of confusion and interruption to the professors, students and administrative staff.

3. It has available a complete pricing library prepared by a statistical department to determine current replacement costs of items of equipment. This reduces the time required to complete the assignment to a minimum.

4. Consistency and uniformity of description and pricing of individual items prevail throughout the report.

5. The finished report is arranged and set up in a manner that is most useful to the client. ■

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LETTERS TO THE EDITOR

Criticizes Business Criteria for N.D.E.A. Loans

Cedar Rapids, Iowa

Editor:

For years I have read the editorials in COLLEGE AND UNIVERSITY BUSINESS with great interest and almost always find myself in complete agreement with them. The editorial in the January 1965 issue entitled "Student Loan Deadbeats," however, is one which I not only cannot agree with but feel compelled to respond to by stating my own opinions on this subject.

It seems that the whole intent of the student loan program is missed by the writer of this editorial. In the case of making a loan to a student under the National Defense Education Act, the purpose, as I believe was intended, is to help those students who can demonstrate financial need who might not otherwise be able to go to college. The security for such a loan was not to be established on the basis of any assets of the student or his parents but on the basis of the fact that the nation could not afford to let this talent go to waste and that the security would be the increased earning ability of the student after he had obtained his degree. Thus I can see no grounds for criticizing the separation of the function of granting loans from that of their collection as was done in the editorial.

Consider the case of a student whose parents have an annual income of $2,000 to $3,000 and who has demonstrated his ability to do good academic work. This student should be granted a loan so that he may start or continue his college education and be in a position then to contribute his talent to society and repay his loan. What good would it do to have the business

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viously, on the basis of commercial business practices, this student would be unable to provide any security for the loan in question.

The editorial states that under such an arrangement it is easy for the social welfare aspect of the student loan to override concerns about responsibility for repayment. I agree with such a statement but I contend that such should be the case and that this is not a shortcoming of the procedure. Once a loan has been made I wholeheartedly agree that every effort should be made to see that it is repaid when due and all the best business practices ought to be followed in the collection procedure.

Another criticism stated in the editorial was the lack of adequate investigation. It is not clear what kind of investigation is referred to but by the tone of the editorial I assume they mean an investigation into the student's or his parents' financial position and his ability to repay. The only investigation which I believe is warranted under the administration of the National Defense Education loan program is to determine whether the student is qualified to meet the academic requirements of the institution. I believe that it is good to follow businesslike procedures in the handling of student loan funds. I do not, however, believe that it is necessary for us to attempt to make these student loan programs function the same as financial institutions operate their loan programs.

The primary purpose of the colleges in loaning to students is to help them obtain an education while the primary purpose of any lending agency is for that institution to make money. This is a difference that is not recognized in the editorial. I am not condoning poor collection procedures in connection with student loans and I am sure that improvement in this area can be achieved by most of us. I do object, however, to the implication, if not the direct charge, that some of us are remiss for making loans when we cannot assure their repayment from the assets of the parent or the student. — ROBERT E. HEYWOOD, *business manager, Co College.*